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SUBJECT: EU HAS SOME QUESTIONS ON UPCOMING AHLC

REF: STATE 162864

Classified By: USEU POLOFF LEE LITZENBERGER; REASONS 1.4 (B,D)

11. (C) Summary. The European Commission, which has the lead on AHLC issues, supports US goals for having the AHLC focus on Gaza withdrawal, but is skeptical of the proposed September date. The EC questions whether Israel will have an agreed, concrete withdrawal plan (or, possibly even a government) that can make commitments to donors in September. Brussels is also concerned that the Israeli delegation included appropriate officials, such as National Security Advisor Eiland, and that Israel come prepared to take action to release arrears and improve internal movement and cross-border trade. The EC is working with the World Bank in Jordan to finalize the necessary technical reports by the end of August, and also noted that the PA has a draft mid-term reconstruction plan. Finally, Commission officials provided an update on the EC's planned 65 million euro contribution to the UN West Bank/Gaza Trust Fund. End Summary.

Is September Realistic?

12. (C) On July 28, Poloff and Development Counselor presented reftel demarche to Christian Berger, the Commission's official for West Bank/Gaza issues, and Nina Obermaier, Programming Officer for WB/Gaza and MEPP. Berger responded that the EC supports the goals laid out by the U.S. demarche, but is skeptical that the AHLC would actually be held in September. With the Israeli Knesset in recess until late October, he asked, will there be an approved withdrawal plan? Will there be a GOI in place that can make commitments to donors about the withdrawal? The key, he said, would be having an Israeli delegation with a mandate and a withdrawal plan in hand for the meeting. He added that the Quartet principals' meeting would also be critical to set the stage for a successful AHLC. He noted that the EC would want the next AHLC agenda to include issues related to the West Bank, in addition to Gaza. He liked the idea of holding a Task Force meeting in August, but again questioned whether there would be sufficient preparation to hold the AHLC by September.

What -- and who -- will Israel bring to the table?

13. (C) Berger was also concerned that Israeli representation at the last AHLC (FM Shalom) was not sufficient to address the issues donors would raise. The same issues discussed then -- Israeli arrears and cross-border trade/internal movement -- are once again on the agenda; Israel had meanwhile done little to address either. Berger said he would hope at a minimum that Israeli National Security Advisor Giora Eiland would be at the AHLC, if indeed it would focus on Gaza withdrawal.

EU will ask Questions

14. (C) Berger said the EU will ask the US and other donors what, concretely, we and they are prepared to do to support PA takeover in Gaza following withdrawal. Berger saw the issue of cross-border trade and internal movement as critical to a successful transfer in Gaza, and wondered what kind of guarantees the donors would seek on this from Israel. He asked how the U.S. planned to work with Israel on this and other issues related to unfulfilled Israeli commitments from the last AHLC.

Econ Plan: EU to help WB

15. (C) On the Economic Action Plan, Obermaier said that the World Bank had contacted the Commission for assistance in finalizing the necessary technical reports in August. The Commission's staff in Jerusalem will work with the WB on this; she said the expectation is that the short, succinct 10-page reports will be completed by the end of August. She also reported that the PA has a draft of a proposed mid-term reconstruction plan.

Update on Contributions to the Reform Trust Fund

16. (C) USEU Development Counselor asked for an update on EU efforts to secure other donor interest in joining them in funding the World Bank's new Reform Trust Fund. Obermaier explained that several donors have now made commitments to the Trust Fund including the Australians who have paid in US

\$1 million, the Norwegians who have paid in a first tranche of planned US \$12 million, the UK which has paid in a first tranche of planned US \$12 million, Canada which is expected to disburse a first tranche of its planned US \$7 million commitment any day now, the Japanese who are also expected to pay in a first tranche of their planned US \$10 million commitment any day now and a very serious expression of interest from the French. Given the other donor intentions to match EC funds, the EC has decided to use this vehicle for 65 million euros of its assistance to the PA. The 65 million euros will be disbursed in three tranches: 40% (26 million euros) within the coming days; 30% when the WB certifies compliance with the fund's conditions (which is expected soon), and the remaining 30% by the end of the calendar year.

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